

ORGANIZATIONAL EXAMINATION
OF
FENYX HEALTH INSURANCE COMPANY
AS OF
FEBRUARY 15, 2023

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

REPORT ON ORGANIZATIONAL EXAMINATION
OF
FENYX HEALTH INSURANCE COMPANY
AS OF
FEBRUARY 15, 2023

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

Trinidad Navarro
Insurance Commissioner

Dated this 29 day of March, 2023

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February 16, 2023

Honorable Trinidad Navarro
Insurance Commissioner
State of Delaware
1351 West North Street, Suite 101
Dover, DE 19904

Dear Commissioner:

In accordance with instructions and pursuant to statutory provisions contained in Examination Certification No. 23.901, dated February 6, 2023, an Organizational Examination has been conducted of

Fenyx Health Insurance Company

hereinafter referred to as FHIC or the Company. The Company was incorporated under the laws of the State of Delaware as a stock health insurance company.

The Company's registered agent is Business Filings Incorporated with its registered office located at 108 West 13th Street, Wilmington, Delaware 19801. The Company's administrative office address is located at 922 North 3rd Street, Harrisburg, Pennsylvania 17102.

The report of such examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

This organizational examination was conducted in conjunction with the Company's application for a health insurer Certificate of Authority in the State of Delaware. The Company's corporate records, records applicable to and attendant with its application as well as financial data as of February 15, 2023, have been reviewed.

HISTORY

The Company was incorporated on December 1, 2021, under the laws of the State of Delaware and is authorized to issue five hundred (500) common shares with a \$600 par value per share. The Company issued the following common stock certificate to Fenyx Health Holdings, Inc. (Fenyx Holdings), a Delaware holding company:

<u>Certificate</u>	<u>Shares</u>	<u>Date</u>	<u>Capital</u>	Gross Paid In and Contributed <u>Surplus</u>	<u>Total</u>
#CS-003	500	02/16/2023	\$300,000	\$1,899,965	\$2,199,965

MANAGEMENT AND CONTROL

Board of Directors

In accordance with its bylaws, adopted December 1, 2021, the business and affairs of the Company shall be managed by a Board of Directors (Board). The number of directors shall be at least three. The directors are to be elected at the annual meeting of the Company's stockholder and shall hold office until his successor shall be elected and qualified.

The directors serving as of the examination date were as follows:

James Byron Handlan
Jennifer Ann Handlan
Marjory Lynd Darwicki

Committees of the Board of Directors

No committees of the Board have been constituted as of the examination date.

Officers

In accordance with its bylaws, the officers of the Company shall be a President, a Secretary and a Treasurer. The Board may also elect other officers as deemed necessary, including a Chairman of the Board, a Chief Executive Officer, a Chief Operating Officer, one or more Vice

Presidents and other subordinating officers as deemed necessary by the Board. Any person may hold two or more offices. Officers shall hold office until their successors are elected and qualified.

The officers serving as of the examination date were as follows:

<u>Officer</u>	<u>Office</u>
James Byron Handlan	President
Jennifer Ann Handlan	Secretary, Chief Operating and Compliance Officer
Marjory Lynd Darwicki	Treasurer

The Company completed the National Association of Insurance Commissioners (NAIC) Form 11 - Biographical Affidavit for the director and officer noted above.

Corporate Records

The Company completed the NAIC Form 12 - Uniform Consent to Service of Process (Power of Attorney), dated and effective February 7, 2023.

The Company has not developed and implemented a Code of Ethics policy or a Conflict of Interest policy. It is recommended that, as a part of establishing corporate governance protocols, the Company adopt a Code of Ethics policy, a Conflict of Interest policy and have the directors and executive officers annually complete and sign the Conflict of Interest statements after licensure and within a timeframe established by the Department.

The Company has not developed and implemented a plan for preservation of records. It is recommended that the Company adopt a written plan for preservation of records after licensure in compliance with Department parameters and within a timeframe established by the Department.

HOLDING COMPANY SYSTEM

At formation, the Company became a member of an Insurance Holding Company System. 18 *Del. C.* §5001(3) states that “control shall be presumed to exist if any person, directly or

indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10% or more of the voting securities of any other person.”

Fenyx Holdings, which owns 100% of the issued capital stock of the Company, has 1,863,800 common shares outstanding. The following persons / entities hold ownership positions in parent Fenyx Holdings as follows:

<u>Person / Entity</u>	<u>Invested</u>	<u>Shares</u>	<u>Percent</u>
James B. Handlan {Director, President} [1]	\$200,000	300,000	16.10%
Jennifer A. Handlan {James’ wife, Director, Secretary} [1]	200,000	300,000	16.10%
Marjory L. Darwicki {James’ sister, Director, Treasurer} [1]	<u>400,000</u>	<u>400,000</u>	<u>21.46%</u>
The Handlan Family collectively (sum of [1])	\$800,000	1,000,000	53.66%
Jonathan Cummins (obtained for \$3.00 per share)	\$200,000	66,667	3.58%
Option Pool Available (Not Allocated)	\$0	223,656	12.00%
Panoramic Venture Fund 5-QP, L.P. [2]	\$1,284,561	368,333	19.76%
Panoramic Venture Fund 5, L.P. [2]	215,439	61,775	3.31%
Render Group, Inc. [2]	<u>500,000</u>	<u>143,369</u>	<u>7.69%</u>
The Panoramic Venture Funds collectively (sum of [2])	\$2,000,000	573,477	30.76%
Total	\$3,000,000	1,863,800	100.00%

In January 2023, in exchange for the common shares received as noted above at \$3.49 per share, the Panoramic Venture Funds collectively invested \$2,000,000 in Fenyx Holdings in the form of convertible promissory notes issued by Fenyx Holdings that are convertible at a future date and into Fenyx Holdings preferred shares which pay a 6% preferred dividend.

The Handlan Family (collectively [1]) owns 53.66% of Fenyx Holdings and controls 100% of the voting Board membership of the Company. The Panoramic Venture Funds (collectively [2]) own 30.76% of Fenyx Holdings and controls 0% of the voting Board membership of the Company. The Delaware Department of Insurance (Department) has determined that the Handlan

Family (collectively) and the Panoramic Venture Funds (collectively) are the ultimate controlling entities of the Company.

FIDELITY BOND

The Company is currently not covered by a financial institution bond. Management has stated that the Company will establish a fidelity institution bond of \$200,000 before September 2023 as required by the Centers of Medicare and Medicaid Services (CMS) in preparation for the 2024 contract year. The fidelity institution bond amount will be adjusted to meet or exceed the NAIC *Financial Condition Examiners Handbook* (Handbook) – *Exhibit R* requirements and will be shared with the Department annually. It is recommended that the Company, as a condition of licensure, obtain the required fidelity institution bond, on or before October 1, 2023, and provide evidence of such coverage to the Department.

AGREEMENTS

Affiliated

As of the examination date, the Company is not a party to any affiliated agreements such as intercompany tax allocation agreement, management or service agreement, claims management agreement or investment management agreement. Upon licensure, the Company must submit a Form D filing to the Department for any material affiliated agreement and obtain approval from the Department prior to the affiliated agreement becoming effective.

Unaffiliated

As of the examination date, the Company is not a party to a custodial agreement. It is recommended that the Company submit any executed custodial agreement(s) to the Department for review to determine if the executed custodial agreement(s) contains the required minimum safeguard wording in accordance with the NAIC Handbook.

PLAN OF OPERATION

The Company intends to submit a CMS Medicare Advantage application by February 15, 2023, to offer employer group only Medicare Advantage Medical Savings Account (MSA) products commencing on January 1, 2024. Medicare Advantage MSA plans are currently a niche product that have significant growth potential in the employer supported Medicare space. MSA plans are the equivalent of health savings accounts for Medicare and have the following features:

- \$0 premium by law
- Non-network – policyholders can access any Medicare participating provider throughout the United States
- Part C only – covers only Medicare A/B medical services; no Part D drug coverage can be integrated into the product, but you can pair with Medicare pharmacy benefits (just like Original Medicare)
- The only Medicare product where you get an annual lump sum cash deposit into an approved IRS tax favored bank account; only CMS, through the Company, can contribute to this account

The Company's planned group MSA offerings will be \$0 premium (required by law) to the Medicare eligible individual within the group along with being \$0 group fee for the employer. The employer can decide to pay for a paired OptumRx employer group pharmacy benefit (OptumRx, the pharmacy arm of UnitedHealth Group has already committed to working with the Company on this aligned group Medicare offering) and/or contribute to their Medicare eligible retiree or active employee costs through health reimbursement account funding. Even if the employer does not desire to contribute any additional funds, the group MSA beneficiary still gets an annual lump sum cash deposit and can choose either a group prescription drug plan or any of the 30+ individual Medicare stand-alone drug plans that are available in every county throughout the United States. This group Medicare MSA product offering is particularly enticing for employers/employees who have health savings account experience being the MSA is the Medicare extension of the health savings account.

The Company intends to work with a select set of distribution partners who have successfully sold Medicare MSA products previously and who also have group sales experience. There will be no hierarchical commission structure and it will be a set dollar per member per month amount paid directly to the producer associated with each group. After initial revenue generation and operational confirmation, the Company intends to work with their select distribution partners to support additional distribution channel options and funding.

REINSURANCE

As of the examination date, the Company is not a party to any reinsurance agreements, affiliated or unaffiliated. The Company is currently negotiating reinsurance coverage terms with potential qualified reinsurers to become effective upon licensure. It is recommended that the Company submit any subsequent executed reinsurance agreements to the Department.

CAPITAL AND SURPLUS REQUIREMENTS

18 *Del. C.* §511(a) requires \$300,000 as the minimum common capital stock and \$150,000 as the minimum gross paid in and contributed surplus for a stock health insurance company. Consequently, the minimum required amounts for this examination are as follows:

Common Capital Stock	\$300,000
Gross Paid-in and Contributed Surplus	<u>150,000</u>
Capital and Surplus as Regards Policyholders	<u>\$450,000</u>

Management and Control – Corporate Records

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The Company has not developed and implemented a plan for preservation of records. It is recommended that the Company adopt a written plan for preservation of records after licensure in compliance with Department parameters and within a timeframe established by the Department.

Fidelity Bond

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It is recommended that the Company, as a condition of licensure, obtain the required fidelity institution bond, on or before October 1, 2023, and provide evidence of such coverage to the Department.

Agreements – Unaffiliated

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It is recommended that the Company submit any executed custodial agreement(s) to the Department for review to determine if the executed custodial agreement contains the required minimum safeguard wording in accordance with the NAIC Handbook.

Reinsurance

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It is recommended that the Company submit any subsequent executed reinsurance agreements to the Department for review.

CONCLUSION

Based on the organizational examination conducted as of February 15, 2023, the financial condition of the Company is as follows:

Assets	\$2,200,039
Liabilities	\$ 16,163
Capital and Surplus as Regards Policyholders	\$2,183,876

Upon completion of the organizational examination, the Company has complied with the capitalization requirements for the State of Delaware. The examination was conducted by the undersigned.

Respectfully submitted,



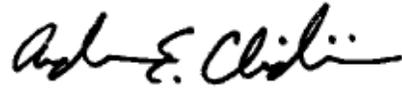
Andrew E. Chiodini, CFE
Examiner In-Charge
Delaware Department of Insurance



Anthony Cardone, CFE, CPA
Supervising Examiner
Delaware Department of Insurance

Fenyx Health Insurance Company

I, Andrew E. Chiodini, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to Examination Certification No. 23.901.

A handwritten signature in black ink, appearing to read "Andrew E. Chiodini". The signature is fluid and cursive, with a prominent initial "A" and "E".

Andrew E. Chiodini, CFE